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NATIONAL FINANCE

BY

F. W. PETHICK-LAWRENCE, M.P.

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NATIONAL FINANCE

By F. W. Pethick-Lawrence, M.P.

“ Under a Conservative Government British industry is secure and trade flourishes.” In some such words the old-fashioned Tory was wont in days gone by to sum up his argument in favour of his party. To-day he dare not make the assertion, for it is palpably untrue. For nine and a half out of the ten years that have elapsed since the Armistice, Conservatives have formed the Government, or have been the predominant partners in it, and at the end of the decade the essential facts are widespread unemployment and languishing industry.

But there is one section of the population which has benefited enormously by the financial policy of the Coalition and Conservative Governments. That section is the *rentier* class, which during all these years has drawn a fixed money income out of the community. As mortgagees, debenture holders, state-bondholders, etc., they have a first charge on the annual product; and the adversity of the land, the workshop, or the nation as a whole, does not therefore diminish their gross income. On the other hand by every reduction in income tax, supertax, and other direct taxation their net income has been increased; and by the general fall in prices resulting from the Government's deflation policy, culminating in the restoration of the gold standard, the purchasing power of each £ of it has been augmented. It is probably well within the mark to assert that a man with a fixed gross income of £10,000 a year is twice as well off as he was in 1920, and that the share taken by the *rentier* class as a whole out of the total annual product of the nation has risen since that year by 40 or 50 per cent.

What this passive element has gained the active producing element has lost. This is at once the cause of the poverty of the workers and of the slump in trade, and also the explanation of the fact that there is always plenty of money available to take up new issues of capital which may be floated on the London market. Moreover, every achievement in “economy” as the word is understood by the Conservatives and many Liberals (which means the curtailment of the social services in order to reduce “direct” taxation) aggravates this evil. Mr. Churchill's notorious Economy Act provides the most apt illustration. By that he cut down the State's contribution to National Health Insurance, thereby preventing the Approved Societies making the valuable

extensions in the provisions for maternity and in dental benefits which they had been planning to do; he reduced the State's share of Unemployment Insurance; he depleted the Road Fund, curtailing necessary development. Later, he induced Lord Eustace Percy to tamper with the education programme, and persuaded Mr. Neville Chamberlain to cut down the housing subsidy and reduce the expenditure on milk for expectant and nursing mothers. A truly marvellous achievement in perverted ingenuity!

The excuse that this "economy" set free *new* money to be spent in the benefit of trade is wholly false. Every extra penny gained, by these means, by the well-to-do was money which would otherwise have been spent by poorer people; and the displaced expenditure would have been far more valuable to the community in every way than the expenditure on luxuries which was substituted for it.

Labour's Double Task.

The task which confronts the next Labour Government in the matter of finance is a double one. In the first place it has to provide the public money which will be required to finance a progressive Labour programme. This includes a substantial increase in the social services. Health, housing and education have all to be adequately provided for. The claims of distress have to be met. National development has to be undertaken on an extensive scale. But the second obligation is no less important. If it is to justify its existence it must also bring the banking and credit system of the country into line with the most enlightened modern thought, so that British industrial life may be helped and not hindered by the working of these essential services.

In framing his budget the Chancellor of the Exchequer in a Labour Government will turn his eyes first to the expenditure side of the account in order to see what charges can without loss be pruned away. His eye will be caught by the item of £113 million, being spent this year on the fighting services. It is then that he will take courage from the attitude of his colleague, the Foreign Secretary. Just to the extent that Labour policy in foreign affairs is less bellicose and more conciliatory than Conservative policy, will the Labour Chancellor find it possible to secure reduction in the armament preparations of the country. Nevertheless, the new expenditure outlined in the preceding paragraph is certain to eat up all and far more than all of his savings under this head, and force him to impose additional burdens on the community.

What form will these additional burdens take? It is quite certain that they will not include additional taxes on food. Indeed, it is part of essential Labour doctrine that the existing taxes on sugar, etc., are injurious, and ought to be abolished at the earliest opportunity. They will not take the form of additional protective or safeguarding duties to which the Labour Party is opposed, both on principle and because so often their result is to make the workers pay more for their common requirements than would otherwise be the case. The main source to which Labour looks for additional receipts for the national exchequer is direct taxation. It believes that the best tests of ability to pay are income and capital wealth.

These tests must be discriminately applied. Just as the poll tax of long ago yielded to the income tax of last century, and that in turn to the present graduated taxation of incomes, so to-day further adjustment is required in order that the extra burden which can quite properly be placed on the shoulders of the really rich shall not at the same time press unduly on those already struggling with almost more than they can bear. The nature of the discrimination which the Labour Party contemplates is indicated by the proposals for the "surtax," which were carried at the Birmingham national conference this year.

Labour realises that income tax payers include among themselves two widely different classes. There are those who, by their strenuous exertions, are making year by year a precarious income, which will fall off when they are incapacitated by ill-health or old age, and will cease altogether when they die. There are, on the other hand, those who, either as the result of inheritance, or of successful business or speculation years ago, are the owners of fortunes, on the interest of which they are living without any need for further exertion. This interest will continue to be paid to them intact when they are ill or old and (subject only to death duties) will be paid to their legatees when they are dead. Existing income tax law recognises this distinction to-day, and allows (in estimating tax) a deduction of one-sixth off "earned" income before it is put on a level with "investment" income; but in the view of the Labour Party this discrimination is not nearly adequate.

The Surtax.

The resolution at Birmingham, therefore, proposed that an additional charge (originally called "surtax") should be imposed on recipients of investment income. A little consideration soon shows that if this were to take the form of a flat rate of tax on all such income a great deal of injustice would be involved and

much hardship inflicted. A surtax of 2/-* in the £ on the income of the millionaire might cause him some inconvenience; but the same impost on the tiny investment income of the widow struggling to bring up her young children on the savings of her deceased husband would be a crushing cruelty. Further discrimination is therefore required. It was accordingly proposed that in the first place an inferior limit should be set, below which the surtax should not operate, and secondly, that above that limit the system of graduation should be introduced. The limit suggested was £500 a year. It therefore follows (1) that no person whose income is derived from his own current exertions would be called on to pay a penny of this special tax; (2) that no person whose investment income was less than £500 (derived, that is to say, from a capital in the neighbourhood of £10,000) would be called on to pay it; (3) that persons whose investment incomes exceed £500 a year would have to contribute on a graduated scale on the excess above £500, so that when the excess is small the proportion of their income that they would have to pay would be exceedingly little.

There is not much object in discussing at this stage either the amount of the new impost or the precise form in which it should be engrafted on existing income tax law. Such matters will have to be decided by the Chancellor of the Exchequer on the advice of the Treasury, when he knows what new money he will require in order to balance his budget. Since the scheme of a Labour surtax was originally drafted, Mr. Winston Churchill has adopted the word "surtax" for his own modification of the supertax, but the essential idea of the Labour scheme remains unaffected.

Another source to which the Chancellor of the Exchequer will look for revenue is inheritance. The natural instincts of humanity sustain a dying man in wishing to hand over to those near and dear to him some tangible marks of his love and affection. But the extension of this principle to vast blocks of wealth marks a change so considerable as to amount to something almost wholly different, as to which the community has a right to express an opinion. Already the State has stepped in and claimed a share of the estate, and there is to-day room for a further development of this claim. The Labour Chancellor will therefore feel free to raise the death duties above their present figure, taking care at the same time to protect the revenue from the evasion at present

* In 1921 the rate of income tax was 6/- in the £, to-day it is 4/-, so that a flat increase of 2/- on investment incomes would do no more than put it back for them at what it was 8 years ago, while leaving the tax on earned incomes at 4/- in the £ as at present.

practised by elderly persons when they give away a considerable part of their fortune during their declining years.

A form of wealth to which attention was directed by the National Conference of the Labour Party at Birmingham as suitable for special taxation was urban ground-value, which to-day is being constantly increased, not by the exertions of the landlord, but by the activities of the community. It is therefore appropriate that either by the taxation or rating of land values or both the community should seek to gain some compensatory revenue for itself. Such action will not prejudice, but rather assist any subsequent scheme of land nationalisation upon which a Labour Government may hereafter determine.

It must not by any means be supposed that the above list of new sources of revenue is exhaustive. A Labour Chancellor of the Exchequer will, of course, be free as all other Chancellors, to impose with the consent of Parliament such burdens on the community and in such form as seem appropriate at the time. But equally it must not be assumed that all the taxes suggested above will necessarily be imposed. It may well be that the general policy of a Labour Government will prove so beneficial to the trade and industry of the country that the yield of the existing taxes is thereby substantially increased, and many reforms refused by the Conservative Government on account of "economy" can be brought into effect out of the surplus revenue thus obtained. The Labour Chancellor will, however, be expected, within reasonable limits, to provide the cloth for such a coat as the Labour Cabinet desires to have cut, and the schemes outlined above indicate the principal sources from which this cloth can, if necessary, be obtained.

Banking Currency and Credit.

I now turn to the second part of the functions of the Chancellor of the Exchequer, namely, his duty, as head of the Treasury, to control the general lines of national finance and to inaugurate such legislative changes with regard to banking, currency and credit as modern conditions may require. Labour has been thinking long and deep on these questions, and as a result has formed certain general conclusions both as to mistakes which have been made by previous Governments and as to the direction in which reforms are required to-day. In this connection it is interesting to note that most modern economists, many enlightened employers, and even some progressive bankers, go a long way with Labour in this matter, and though they may not all accept the full Labour programme, are in substantial agree-

ment as to the nature of the malady and the adoption of some steps such as Labour advocates to deal with it.

The Bank of England, as it exists to-day, is a survival of an age which has long since passed away. It was all very well, when banks were a sort of special safe deposit, for the controllers of a particular safe to be private individuals. No one need use their safe unless he liked. To-day the central banking institution of any country has executive powers relating to the price level, credit, exchange, and foreign loans comparable with those of the Government itself, and its decisions are fraught with consequences as momentous to the well-being of the country and of the world as many of the major decisions of the Cabinet. It is incredible that this country can continue much longer to allow the Bank of England, almost alone among great central banks,* to remain a private concern, and to appoint directors and a Governor who are not in any way responsible to the Crown, the Government or Parliament, but solely to the private shareholders of the Bank. The Labour Party stands, therefore, quite definitely for such a reconstruction of the constitution of the Bank of England as will bring it under public control. It is not proposed to make it a Government Department, or a sub-department of the Treasury, but to convert it into a public corporation, the directorate of which shall include representatives of the Treasury, the Board of Trade, Industry, Labour and the Co-operative Movement. This will provide a stable and broad basis for its management, and restore to the Bank the respect for its decisions which recent events have tended to shake.

Stability of Prices.

I have referred earlier to the deflation policy pursued during the last decade by Coalition† and Conservative Governments, with the assistance of the Bank of England. It is clear to-day that this policy of deliberately causing a fall in the general level

* In U.S.A. the ultimate control of the banking and credit system is in the hands of the Federal Reserve Board, which consists of the Secretary of the Treasury, the Controller of the Currency, and six Members, who hold office for ten years, and are appointed by the President of the United States.

† As head of the Coalition Government Mr. Lloyd George bears the prime responsibility for the great deflation policy of 1921, which sent prices tumbling. But in the Lloyd George Unemployment pamphlet of March, 1929, we find the final steps in this policy taken in 1924-5, under Mr. Baldwin and Mr. Winston Churchill, described as follows: "An ill-considered and precipitate return to the gold standard which struck a disastrous blow at our export industries."

of prices inevitably involved the strangulation of our export industries and consequent widespread unemployment. Unfortunately an attempt to go back on this error by a corresponding inflation (or an increase in prices) would bring equally serious consequences, one of which would be the reduction in the real wages of the workers. Inflation and deflation, though opposites, are in fact no more a cure for one another than is scalding a cure for frost bite. What mankind urgently requires is a standard of value which will be as stable and reliable as the yard measure is for length or the gallon for volume. Without it all human transactions in which the element of time enters are unreliable. The gravity of the problem presented to the people of this country was forcibly expressed on October 30th, 1928, by no less an authority than Sir Josiah Stamp in a speech at Bolton, when he pointed out that the root problem of the economic future of Great Britain was stability in the price level, and that if this problem could not be satisfactorily solved Great Britain might find herself reduced to a second-rate economic position in the space of ten years. It will therefore be one of the tasks of the next Labour Government to play a leading part in conjunction with the Governments of other countries in seeking a solution of this problem.

Such a solution, however, will take time to find, and further time to bring into effective operation. More immediate domestic action will be needed if British industry is to be rescued from its present deplorable plight and British workers are to find once again the means to earn a living. The Labour Government will accordingly, as I have already indicated, inaugurate a substantial programme of national development, including a vigorous housing* campaign and extensive construction of roads, bridges, and other works of a useful character. The extent to which this will really tend to absorb the unemployed will depend, however, largely on the method of finance adopted. If the money to be found for these schemes were to be obtained from the imposition of new burdens directly or indirectly upon existing industry, little gain might be expected. But if the burden of the cost itself or, in some cases, of the interest on such cost falls mainly on the *rentier*, a substantial reduction in unemployment may be expected.

* Mr. Lloyd George, in the Liberal pamphlet on Unemployment, criticises the Government's reduction in the housing subsidy, but when the Labour Party in December, 1926, opposed this reduction, only seven Liberal M.P.'s joined them in the division lobby, three Liberals voted with the Government, and thirty did not take the trouble to vote either way.

Municipal Banks.

The Labour Party are also pledged to extend the facilities for Municipal Banks. At present only one municipality, viz., that of Birmingham, is allowed by law to have a bank. In spite of the phenomenal success of this enterprise, which has encouraged thrift, and proved of great economic advantage to Birmingham, none of the other great municipalities of the country are allowed a similar opportunity. This anomaly, which is defended by the flimsiest arguments, must be brought to an end as soon as possible, and permission granted to all municipalities of a certain size to operate under proper safeguards a bank for their citizens.

Wider questions remain behind concerning the more scientific use of the nation's credit for promoting industry of benefit to the community. There is a large body of opinion both inside and outside the Labour Party highly critical of the present use of credit power by the Bank of England. On the one hand there is a growing feeling that, quantitatively, domestic credit might with advantage be stretched without involving inflation or a departure from the gold standard or a reversion to unstable exchanges. On the other hand the question is being asked why there should be no qualitative differentiation in the credit given to enterprises according as they are beneficial, neutral or actually deleterious to the community. Labour has not so far expressed any definite views on these subjects except to recommend an enquiry in order that they may be elucidated. Quite clearly they are not matters which can be decided by a hasty judgment of the man in the street. But equally clearly a Government which refused to act after consulting with well-informed opinion would be guilty of criminal neglect.

The problems awaiting the next Labour Chancellor of the Exchequer will be by no means easy of solution. In both the realms of taxation and financial reform he will be ridiculed and obstructed by big interests. But with sound judgment, loyal support and resolute will he has the chance of blazing a trail which will make his term of office memorable in the annals of the nation.

THE FABIAN SOCIETY

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(TO BE SIGNED BY ALL MEMBERS.)

(Adopted May 23rd, 1919.)

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